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STATE OF MICHIGAN



JOHN ENGLER, GOVERNOR

DEPARTMENT OF TRANSPORTATION

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JAMES R. DeSANA, DIRECTOR

February 1, 2000

The Honorable Philip E. Hoffman, Chair  
Senate Appropriations Subcommittee  
on Transportation  
P.O. Box 30036  
Lansing, Michigan 48909

The Honorable Judith Scranton, Chair  
House Appropriations Subcommittee  
on Transportation  
P.O. Box 30014  
Lansing, Michigan 48909

Dear Senator Hoffman and Representative Scranton:

Enclosed is a copy of the Michigan Department of Transportation's response to the requirements found in our boilerplate language regarding Section 726 and Section 723. This language required the department to analyze the intercity bus capital equipment program to determine the financial status of current and proposed essential bus corridor routes.

If you have any questions or comments regarding this report, feel free to contact me or Philip F. Kazmlerski, Deputy Director, Bureau of Urban and Public Transportation, at 373-2282

Sincerely,

A handwritten signature in black ink, reading "James R. DeSana".

James R. DeSana  
Director

Enclosure

UPT:TSS:LF:ng

cc: Subcommittee  
State Transportation Commission  
G. Rosine  
P. Kazrnierski  
W. Niles  
T. Horsfall  
E. Timpf  
T. Pohl  
K. Grimes  
~~K. Johnson~~  
L. Funk  
F. Kraus  
J. Smalley  
D. Sucha

REPORT  
TO THE  
LEGISLATURE

SECTION 726  
SECTION 723

INTERCITY BUS EQUIPMENT PROGRAM

MICHIGAN DEPARTMENT  
OF  
TRANSPORTATION

BUREAU OF URBAN AND PUBLIC TRANSPORTATION

*Philip F. Kazmierski*  
DEPUTY DIRECTOR

JANUARY 2000

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Sec. 726. No later than December 31, 1999, the department shall complete a financial analysis of the intercity bus equipment program to determine the financial status of current and proposed essential bus corridor routes outlined in section 723 of this bill.

Section 723. (1) The following bus routes are designated as an essential corridor in Michigan:

Upper Peninsula- Greyhound Transportation

Between St. Ignace and Escanaba	US-2
Between Escanaba and Duluth	US-2 through Ironwood to the state line
Between Calumet and Escanaba	US-41
Between Escanaba and Milwaukee	US-41 through Menominee to the state line
Between St. Ignace and Sault Ste. Marie	I-75

Greyhound

Between Detroit and Chicago	I-94 from Detroit to the state line
Between Detroit and Muskegon	I-96
Between Grand Rapids, Holland, and Benton Harbor	I-196 to I-94
Between Muskegon and Grand Rapids	US-31, I-96
Between Detroit and Bay City	I-75
Between Bay City and Mt. Pleasant	US-10, M-20
Between Jackson and Traverse City	US-127, US-27, I-75, Grayling, Gaylord, M-72 to Traverse City
Between Jackson and Indianapolis	I-69, I-94 to the state line through Albion, Marshall, and Coldwater
Between Houghton Lake and Cadillac	M-55 and M-66
Between Detroit and Toledo	I-75 to the state line
Between the Indiana state line and Traverse City	US-31 and I-196
Between Detroit and Port Huron	I-375 and I-94
Between Toledo and Bay City	US-23, I-75, and I-675, I-75

Indian Trails

Between Bay City and Chicago	I-75, Flint, I-69, I-94, Baffle Creek, I-94 to the state line
Between Flint and Lansing	I-69, M-21, Owosso, M-52, I-69

CTF Sec. 723

Between Bay City and St. Ignace

I-75, US-23

Between Grand Rapids and St. Ignace

US-131, Cadillac, M-115, Mesick, M-37 to  
Traverse City, US-31, Acme, M-  
72, Kalkaska, US-131, Boyne  
Falls, M-75, Walloon Lake, US-  
131, Petoskey, US-31, I-75, St.  
Ignace

Between Kalamazoo and Grand Rapids

US-131

(2) Any changes to the essential corridor list in subsection (1) shall be approved by the house and senate appropriations subcommittees on transportation.

(3) No entity shall receive operating assistance for a scheduled regular route service which is competing with another private carrier over the same route.

## **INTRODUCTION**

Intercity bus service is an important part of the nation's passenger transportation system. Despite this fact, intercity bus service has declined since the passage of the Bus Regulatory Reform Act. A Michigan State University study indicated that in 1982, 11,820 locations were served by intercity buses compared to 5,690 in 1991 nationally. The report also concluded that many intercity bus passengers had low incomes and were less likely to have access to alternative modes of transportation.

This national trend has been prevalent in Michigan also. In 1982 there were 560 locations served by intercity bus compared to 161 locations currently being served. Two private intercity bus carriers, Greyhound Lines, Inc. and Indian Trails, Inc. provide all of the daily regular route intercity bus services between urban and rural areas in the state of Michigan. Greyhound is a nationwide intercity bus carrier based in Dallas, Texas that provides service throughout both the upper and lower peninsula. Indian Trails is a regional intercity bus carrier based in Owosso, Michigan. It operates service primarily over a corridor extending between Chicago, Illinois and Bay City, Michigan. The company also operates two routes that run northerly along, the eastern and western borders of the state to St. Ignace.

A map detailing the current intercity passenger network is found on Attachment A. The map illustrates all intercity bus routes as well as intercity passenger rail service provided by AMTRAK.

## **ESSENTIAL CORRIDOR BUS ROUTES**

### **Corridors Served by Intercity Bus Carriers**

Based on an evaluation of the essential corridors listed in Senate Bill Number 372, Section 723), Indian Trails and Greyhound provide service along all the corridors except four:

St. Ignace and Sault Ste. Marie via I-75  
Indiana state line and Traverse City via US-31 and I-196  
Detroit and Port Huron via I-375 and I-94  
Toledo and Bay City via US-23, I-75, and I-675, I-75

The service between St. Ignace and Sault Ste. Marie is operated by a private limousine provider called J and J Limo. This provider coordinates service with both Indian Trails and Greyhound. There is intercity bus service between the Indiana state line and Traverse City and Toledo and Bay City; however, the service does not follow the corridors stated in the legislation. There is currently no intercity bus service between Detroit and Port Huron. Passengers wanting to reach this destination could take an intercity bus to Flint and then transfer onto AMTRAK.

### **Average Load per Vehicle**

The carriers provided data for the average load per vehicle. The average load is computed by dividing the total passenger miles by the total bus miles. The average load indicates the average number of passengers on the bus; not the total number of passengers carried along the route. This facilitates the carriers scheduling needed equipment along a particular route based on available capacity. An example of this is if a person were to travel from Chicago to Kalamazoo and another person were to travel from Kalamazoo to Detroit, they would be counted as one person when determining the average load per vehicle along the Chicago to Detroit corridor.

Greyhound currently operates 21.5 to 22.5 daily round trips within the state. The average load ranges from 4 to 19.9 passengers dependent on the route. Indian Trails reported that it operates nine daily round trips within the state. The average load ranges from 8.6 to 18 passengers dependent on the particular route.

Attachment B shows the daily round trips and the average load.

### **INTERCITY BUS CAPITAL EQUIPMENT PROGRAM**

The purpose of the intercity bus capital equipment program is to assist the intercity bus carriers in maintaining service throughout the state. There is eligibility criterion that have to be met to participate in the program. In addition, the capital equipment program is monitored to protect the investment made by the state. When the equipment is sold, the funds return to the state for the purchase of new capital equipment. The bus capital equipment program reduces the need to provide operating assistance. This has been the case in Michigan with the exception of the service being provided by Greyhound in the upper peninsula and the service being provided by Indian Trails in northern lower Michigan.

### **Greyhound Lines, Inc.**

Based on the level of service provided in the lower peninsula, 25 buses are required to meet Greyhound's daily equipment needs. This includes 20 buses for the regular route service with five spare buses to be used as back-ups. Greyhound's bid on the upper peninsula service was for operating assistance only. As a result, no buses are being provided in the upper peninsula from this program.

Greyhound has received 10 lift-equipped, over-the-road, intercity buses through the bus capital assistance program to date. One of these is a 1997 model year, 55 passenger bus, and four are 1998 model year, 55 passenger buses. These five buses are state-owned. Five are 1999 model year, 55 passenger buses, of which one is state-owned and four are leased by the state. Another five 2000 model year, 55 passenger, lift-equipped, state-owned buses were ordered under the FY 1999 program. These buses are expected to be delivered during the first quarter of 2000. All of these buses have been or will be leased to Greyhound for \$1.00 per year. An application for another five buses has been received for FY2000. If this request is approved, these buses will be leased to Greyhound for no less than \$1,000 per year.

### **Indian Trails, Inc.**

Based on the level of service provided in the lower peninsula, 12 buses are required to meet daily equipment needs. This includes 11 buses for the regular route service with one spare bus to be used as a back-up.

Indian Trails has received 11 lift-equipped, over-the-road, intercity buses under the program to date. Five of these buses are 1995 model year, 55 passenger buses. One is a 1997 model year, 55 passenger bus and another five are 1998 model year, 55 passenger buses. All of these buses are state-owned and are leased by the department to Indian Trails for \$ 1.00 per year.

An application for five replacement buses has been received by Indian Trails for FY2000. Based on current guidelines, these vehicles are not eligible for replacement at this time. It should be noted that the intercity bus program policy is currently being revised. Consequently, the bus capital assistance program is being evaluated to determine if a different replacement schedule should be used. If the guidelines are modified and this request is approved, these buses will be leased to Indian Trails for no less than \$ 1,000 per year.

### **FINANCIAL DATA**

Both Greyhound and Indian Trails provided the Michigan Department of Transportation (MDOT) financial data regarding their operations. This information is included in Attachment C and Attachment D respectively. This data was used to analyze the impact of the bus capital equipment program on the financial viability of the routes being provided by the carriers. The figures provided by the intercity bus carriers have not been audited.

### **Greyhound Lines, Inc.**

Greyhound provided information on the corridor descriptions to the extent possible for the period of October 1, 1998 to September 30, 1999. It reported that the data represented logical destination points and was not necessarily limited to the state line. The figures were for passenger revenue only and did not include package express or subsidy revenue from the state assisted routes operating in the upper peninsula. For the first five months of service in the upper peninsula, MDOT has provided Greyhound \$480,200 in operating, assistance.

Greyhound reported that the annual revenue generated is \$4.8 million and the fully allocated costs are \$7.2 million resulting in a net margin loss of over \$2.4 million. Every route that Greyhound operates in the state of Michigan operates at a loss, ranging from \$68,064 to \$1,006,014. Based on a \$15 per mile straight line depreciation, Greyhound determined that it would have incurred an additional \$190,000 in lease costs in 1998 without the five buses provided by MDOT.



## **Indian Trails**

Indian Trails is a Sub-Chapter-S Corporation, which means that the profits are distributed before federal income taxes are paid. The income tax is then paid by the shareholders. Indian Trails reported that its profit for 1998 before federal income tax was \$68,977. For 1998, MDOT provided Indian Trails \$137,870 in operating assistance for the routes that travel northerly along the eastern and western borders of the state. The operating assistance provided by MDOT was included in the total revenue figures.

Indian Trails used its charter buses on the regular route service when the state-owned buses were unavailable. A total of 132,3143 miles were incurred. This mileage was not accounted for when computing the profit shown for the regular route service. Using a \$.15 per mile straight line depreciation, an additional loss of \$19,851.45 would have been incurred. Consequently, the \$68,977 profit shown on Attachment D would have been reduced to \$49,125.55.

As a result of the capital equipment program, Indian Trails showed a small profit on two of the four regular routes it operates (before federal income tax). However, if Indian Trails would have purchased buses to operate this service, every route would have sustained a loss. Without the buses provided by MDOT, the regular route service would have sustained a \$187,007 loss.

## **SUMMARY**

The capital assistance program helps to maintain a basic network of intercity bus service within the state of Michigan. Based on the analysis of the financial data provided by the carriers, there is little profitability in providing regular route service within the state of Michigan. Without this program, every route would sustain a loss making it difficult for the intercity bus carriers to continue providing the level of service that is currently available. In fact, if the buses were not provided, it is expected that the frequency of regular route services would be reduced. The bus capital assistance program, helps reduce the losses sustained by the carriers. Therefore, it is recommended that the capital assistance program continue.



## ATTACHMENT B

		Daily Round Trips	Average Load
GREYHOUND Upper Peninsula Transportation			
Between St. Ignace and Escanaba	US-2	1	7.6
Between Escanaba and Duluth via Ironwood	US-2	1	6.0
Between Calumet and Escanaba	US-41	1	4.0
Between Escanaba and Milwaukee via Menominee	US-41	1	11.3
Between Marquette and Green Bay via Menominee	US-41	1	5.0
GREYHOUND			
Between Detroit and Chicago	I-94	6	17.5
Between Detroit and Muskegon	I-96	4	17.6
Between Grand Rapids, Holland, and Benton Harbor to Chicago	I-196, I-94	2	19.9
Between Detroit and Bay City	I-75	3	17.5
Between Bay City and Mt. Pleasant, Cadillac and Traverse City	US-10, M-20, US-27, M-55	1	6.3
Between Detroit, Jackson and Traverse City	US-127, US-27, I-75, M-72	1	10.9
INDIAN TRAILS			
Between Bay City and Chicago via Flint and Battle Creek	I-75, I-69, I-94	5	18.0
Between Bay City and St. Ignace via Alpena, Onaway, Cheboygan	I-75, US-23, US-2	1	8.6
Between Grand Rapids and St. Ignace via Cadillac, Traverse City	US-131, M115, M-37, M-72, US-131, I-75, US131	1	15.5
Between Kalamazoo and Grand Rapids	US-131	2	8.6

Note 1 - Average load calculation for Upper Peninsula routes based on data collected May 19 - September 30, 1999.

Note 2- Indian Trails Average Load Based on Percent Capacity for 55 Passenger Bus.

# ATTACHMENT C

## GREYHOUND Upper Peninsula Transportation (See Note 1)

Between St. Ignace and Escanaba	US-2
Between Escanaba and Duluth via Ironwood to the state line	US-2
Between Calumet and Escanaba	US-41
Between Escanaba and Milwaukee via Menominee to the state line	US-41
Between Marquette and Green Bay via Menominee	US-41

Between St. Ignace and Sault Ste. Marie:	I-75
Private Demand Response Carrier (J & J Shuttle)	

## GREYHOUND

Between Detroit and Chicago from Detroit to the state line	I-94
Between Detroit and Muskegon	I-96
Between Grand Rapids, Holland, and Benton Harbor to Chicago	I-196, I-94
Between Muskegon and Grand Rapids	US-31, I-96
Between Detroit and Day City	I-75
Between Bay City and Mt. Pleasant, Cadillac and Traverse City	US-10, M-20, US 27, M-55
Between Detroit, Jackson and Traverse City	US-127, US-27, I-75, M-72
Between Jackson and Indianapolis via the state line	I-69, I-94
Between Houghton Lake and Cadillac	M-55, M-66
Between Detroit and Toledo	I-75
Between the Indiana state line and Traverse City	US-31, I-196
Between Detroit and Port Huron	I-375, I-94
Between Toledo and Bay City	US-23, I-75, I-675, I-75

## INDIAN TRAILS

Between Bay City and Chicago via Flint and Battle Creek	I-75, I-69, I-94
Between Flint and Lansing via Owosso	I-69, M-21, M-52, I-69
Between Day City and St. Ignace	I-75, US-23, US-2
Between Grand Rapids and St. Ignace:	
Between Kalamazoo and Grand Rapids	US-131

Daily Round Trips	Average Load	Annual Miles	See Note 2		Direct Variable Costs	Fully Allocated Costs	Gross Margin Net Margin	
			Revenue per Mile	Annual Revenue				
1	7.6	39,005	\$0.88	\$34,129	\$85,421	\$102,193	(\$51,292)	(\$68,064)
1	6.0	77,675	\$0.67	\$52,097	\$170,108	\$203,509	(\$118,011)	(\$151,412)
1	4.0	48,240	\$0.45	\$21,930	\$105,646	\$126,389	(\$83,716)	(\$104,459)
1	11.3	66,020	\$1.28	\$84,647	\$144,584	\$167,691	(\$59,937)	(\$83,044)
1	5.0	45,320	\$0.63	\$28,756	\$99,251	\$118,738	(\$70,495)	(\$89,982)
NA								
5.5-6.5	17.5	1,105,632	1.63	\$1,802,291	\$2,421,334	\$2,808,305	(\$619,043)	(\$1,006,014)
4	17.6	544,094	2.16	\$1,176,222	\$1,191,566	\$1,381,999	(\$15,344)	(\$205,777)
2	19.9	286,909	2.26	\$649,677	\$628,331	\$728,749	\$21,346	(\$79,072)
Combined with Detroit to Muskegon								
3	17.5	264,768	2.18	\$578,200	\$579,842	\$672,511	(\$1,642)	(\$94,311)
1	6.3	144,304	0.68	\$98,603	\$316,026	\$366,532	(\$217,423)	(\$267,929)
1	10.9	235,531	1.42	\$334,336	\$515,813	\$598,249	(\$181,477)	(\$263,913)
NA								
Combined with Bay City and Mt. Pleasant								
See cover letter								
NA								
NA								
NA								
21.5-22.5	15.6	2,857,498	\$1.70	\$4,860,888	\$6,257,922	\$7,274,865	(\$1,397,034)	(\$2,413,977)
Note 3								

Note 1: For the Upper Peninsula Service only. Data shown is from the beginning of service (May 19 - Sept 30)

Note 2: Only passenger revenue is provided. Package Express or subsidy (UP Service) revenue is not shown.

Note 3: Formulas have been modified to properly reflect values in the summary line.

ATTACHMENT D

**INDIAN TRAILS, INC.  
REGULAR ROUTE PROFIT ANALYSIS FOR 1998**

**TABLE I**

	BAY CITY - CHICAGO 5 daily round trips average load - 32.8%	BAY CITY - ST. IGNACE 1 daily round trip average load - 15.6%	GRAND RAPIDS - ST. IGNACE 1 daily round trip average load - 28.2%	GRAND RAPIDS - KALAMAZOO 2 daily round trips average load - 15.6%	1998 TOTAL
Total Revenue	\$2,636,986	\$331,508	\$373,537	\$155,250	\$ 3,497,281
Total Expenses Less Depreciation and Less Federal Income Tax	\$2,532,923	\$350,526	\$391,269	\$153,586	\$ 3,428,304
Profit Before Federal Income Tax	\$104,063	(\$19,018)	(\$17,732)	\$1,664	\$ 68,977

**TABLE H**

IF MOTOR COACHES ARE PURCHASED BY INDIAN TRAILS, USED TO RUN THE REGULAR ROUTE, AND DEPRECIATED @ \$.15 PER MILE

Straight Line Depreciation @ \$.15 Per Mile	\$189,131	\$26,172	\$29,214	\$11,467	\$255,984
Loss Including Depreciation as Noted Above	(\$85,068)	(\$45,190)	(\$46,946)	(\$9,803)	\$ (187,007)

Note: MDOT operating assistance is included in the total revenue figures.